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**EFFECTS OF EMPLOYEE'S INCENTIVES
ON EUROPEAN FIRMS'
ECO-INNOVATION**

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EFFECTS OF EMPLOYEE'S INCENTIVES ON EUROPEAN FIRMS' ECO-INNOVATION

Abstract

Corporate Social Responsibility (CSR) has been proven to be a source for competitive advantage for businesses over the years not only financially, but social and environmentally. This paper aims to study the relationship between incentives provided to employees through HR/CSR practices and the eco-innovation of European firms, by focusing on the internal social dimension of CSR. This study considers pecuniary, non-pecuniary incentives and their synergic effect on eco-innovation on a sample of 1076 European firms. This research analyzes the data of these incentives and their evolution in four geographical zones (Southern, Western, Northern and Eastern Europe) in the period covering the years between 2017 and 2021. Using regression models to test the hypotheses raised, there is evidence of a positive effect of pecuniary and non-pecuniary incentives on eco-innovation, but the complementary effect of both shows a negative impact on firm's innovation capabilities.

Keywords: Corporate Social Responsibility (CSR), Pecuniary rewards, Non-pecuniary rewards, Eco-innovation.

Resumen

La Responsabilidad Social Corporativa (RSC) se ha considerado una fuente de ventaja competitiva para las empresas a lo largo de los años no solo financieramente, sino social y ambientalmente. Este trabajo tiene como objetivo estudiar la relación entre los incentivos proporcionados a los empleados a través de prácticas RH/RSC y la eco-innovación de las empresas europeas, enfocándose en la dimensión social interna de la RSC. Este estudio considera incentivos pecuniarios, no pecuniarios y su efecto sinérgico en la eco-innovación en una muestra de 1076 empresas europeas. Esta investigación analiza los datos de estos incentivos y su evolución en cuatro zonas geográficas (Europa del Sur, Europa Occidental, Europa del Norte y Europa del Este) en el periodo que abarca los años entre 2017 y 2021. Utilizando modelos de regresión para probar las hipótesis planteadas, hay evidencia de un

efecto positivo de los incentivos pecuniarios y no pecuniarios en la eco-innovación, no obstante, el efecto complementario de ambos muestra un impacto negativo en las capacidades de innovación empresariales.

Palabras clave: Responsabilidad Social Corporativa (RSC), Incentivos pecuniarios, Incentivos no pecuniarios, eco-innovación.

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1. INTRODUCTION

Over the past decades it has been proved that Corporate Social Responsibility practices and activities have improved organizations' performance, not only in the financial aspect, but also in the way in which they are more environmentally responsible and how more competent, and quality human labor capital has been created. Nowadays, companies are more aware that CSR provides them competitive advantage (Lindgreen and Swaen, 2009), and it is reflected in the growing trend of these sustainable policies.

Many researchers have investigated and showed different theories about CSR. Among the many models that have been created over time to explain the multidimensional character of CSR, this research will be focused on the environmental and social dimension. Since companies have become aware of the importance of the welfare in the workplace, their role has increasingly become a potential source of efficiency among organizations, and it has been related with the green innovation of organizations. Nevertheless, the link between CSR and eco-innovation needs further study to reach clear conclusions, as this relationship remains unclear (Surroca et al., 2010). So, do employees incentives indeed affect eco-innovation?

On this paper, this possible correlation between incentives on employees (through HR/CSR practices) and its effect on the eco-innovation of European firms is questioned and studied. For this purpose and to answer the previously raised question, this paper is structured in 3 main sections. First, the theoretical framework of the topic is established. This section examines the existing literature on the subject, in which the multidimensional character of the CSR concept is analyzed. After that, the focus of the study shifts to the internal social dimension of CSR and its relationship with firm's eco-innovation. Research findings have previously shown that practices aimed to enhance employee's motivation have a positive impact on creativity and innovation in the workplace. For the purpose of studying these effects on eco-innovation, pecuniary and non-pecuniary rewards are considered, as well as the combined effect of both types of incentives. Three hypotheses are raised to investigate whether there is a relationship between these rewards and eco-innovation.

On the second section, and starting with the empirical analysis, data about pecuniary and non-pecuniary incentives is analyzed, as well as their evolution throughout the year period

considered (2017/2021) in the different geographic zones (Northern, Southern, Western and Eastern Europe), to create a prototype of the existing trends by means of creating different tables and graphs.

Moreover, regression models are created to contrast the three hypotheses. By means of the regression results obtained, it is possible to raise direct conclusions of whether these policies positively or negatively contribute to firm's green innovation. The findings are in line with the main purpose of the paper, providing logic evidence about the relation between the types of considered incentives and the innovation capabilities of European firms. Moreover, this study provides evidence to affirm that the synergic effect of both types of incentives do not help companies in enhancing both extrinsic and intrinsic motivation, consequently having unfavorable impacts on workforce productivity and creativity. The paper discussion, along with the study's conclusions, are presented together in the third and last section.

With these implications, companies and organizations, should increasingly focus their resources investment on their HR/CSR policies and strategies in line with providing enough incentives for their employees, taking into account the big impact and effects that they have on a company's labor force. Therefore, and knowing that most companies and organizations have redirected their HR programs, trends are moving towards a more sustainable and responsible business world. Although these results could provide companies valuable insights for companies to increase their engagement with eco-innovation and enhance their commitment to sustainability, the limits of innovation capabilities are yet to explore, and it requires many times spent and resources, which not all companies are willing to sacrifice.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

2.1 CSR as a multidimensional construct

The Corporate Social Responsibility (CSR) concept has received many definitions since it was first introduced, and it is impossible to define CSR subject in a clear way due its multifaceted character (Szczyka M., 2015). This concept must be well explored to give context to this ongoing research.

The earliest conceptions came in the 1930s by Wendell Wilkie, who stated that CSR can “educate businessmen to have a new sense of social responsibility”. Later, Bowen defined it as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen, 1953). Other definitions that have taken part of the history of this concept could be “...the firm’s considerations of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks.” (Davis, 1973), “The art of doing well by doing good” (Economist, 2005) or “...a firm’s voluntary consideration of stakeholder concerns both within and outside its business operations.” (Aguilera et al., 2007). From a general perspective, it could be said that CSR is used to describe how businesses implement the broad societal responsibility of going beyond economic criteria (Khojastehpour & Johns, 2014).

This broad concept has drastically increased its presence among the corporate world over the years and have become a crucial part of the way of doing business nowadays. Although CSR is typically assumed as a “voluntary initiative rather than a legal mandate” (Li-Wen L., 2020) and companies could choose whether to involve themselves or not, there must be good reasons for companies to increase their engagement with this concept. Literature has shown that CSR practices are well-recognized across the world and the boundaries of CSR frequently expand (Hickle, 2017), as they help companies in improving customer’s perception of the brand or in showing signs of accountability to investors (Heyward C., 2020). Many authors have deeply studied these reasons that have acted as organizational motivators. As Sprinkle & Maines claimed in 2010, organizations engage in CSR for four reasons: appease stakeholder groups, potential benefits of recruitment, motivation and retainment of employees and customer-related motivations. Polonsky & Jevons (2009) included improved financial performance, contribution

to market value, a positive impact on societal stakeholders, a connection with consumers, and improved product quality.

Looking at the reasons exposed, it is obvious that CSR practices (directly or indirectly) act as generators of profit and potential sources of competitive advantage for the firms. But what is CSR besides revenue producer and a lucrative asset?

Over the last decades, many theories and models have been developed to categorize and classify the different types of CSR. Three of the main contributions to the topic are the “Carroll Theory” (1979), the “Triple Bottom Line Theory” (1997) and the “Stakeholder Theory” (1984). Each of these theories analyze, study, and categorizes CSR from different perspectives in accordance with the many definitions the concept has.

Nevertheless, the “Triple Bottom Line Theory”, founded by John Elkington is an engaging framework for the understanding of CSR beyond its economic implications. This “brilliant and far-reaching metaphor” (Henriques, 2007, p. 26), is a consistent and sustainable-related construct that is explicitly based on the integration of the social (people), environmental (planet), and economic (profit) dimensions (Alhaddi H., 2015) or in other words, it implies that companies should report their performance against economic, environmental, and social criteria (European Commission, 2001:26).

Briefly explained, the social dimension refers to conducting beneficial and fair business practices to the labor, human capital, and the community (Elkington, 1997). Somehow, these practices provide value and “give back” to the society (Alhaddi, 2015), as shown in the following statement:

“I’ve observed several successful companies today that use social responsibility to give back to society and thank customers for their loyalty. This can come in the form of projects, movements or empowerment of individuals. Whatever form these corporate ventures take, they are definitely a win for both the company and the community alike.”
(Heyward C., 2020).

The economic dimension of the framework refers to the organization’s business practices on the economic system (Elkington, 1997). According to the Triple Bottom Line theory, the most

important for a company is not to make high profits but to achieve continuous profit for the long term. Finally, the environmental dimension implies the use of natural resources without affecting the future use of them. More specifically explained, it refers to the efficient use of energy resources, reducing greenhouse gas emissions or minimizing the ecological footprint (Goel, 2010). This dimension is becoming a focus on the last years due to the fact of the growing attention on the climate change and sustainability topics, as traditionally, organizations have usually focused on profitability (Kraus et al., 2018)

Moreover, literature distinguishes two dimensions among the socially responsible businesses. As Buggenhout categorized on “A social stakeholder model” (2004), stakeholders can be both internal and external. Therefore, CSR can be also conceptualized in the way which organizations respond to these stakeholders (Story & Castanheira, 2019). External CSR is destined to all stakeholders that influence the organizations from the outside, the activities focused on the protection of the environment, community development or sustainability (Turker, 2009) among others, whereas internal CSR affects those stakeholders for whom the organization’s management takes responsibility (Verdeyen V., Put J., Buggenhout B., 2004),

As this paper is mainly focused on employees and how the change on their working conditions affect organization’s eco-innovation, we will only consider the internal social dimension of CSR.

2.2 Social CSR Orientation and Eco-Innovation

After having exposed on the previous point the multidimensional character of the CSR concept, the internal social dimension of CSR (one of the main focuses of this paper) will be studied. This paper aims to analyze the effects of this internal social dimension of CSR in firm’s eco-innovation.

The term eco-innovation embodies strategies to prevent environmental degradation and to achieve resource efficiency. It is about reducing resource intensity of products and services and creating new business models that are both competitive and respect the environment (Szilagyi,

2018). Many opportunities exist for eco-innovation, from green products or business models to better managing of ecosystems and lifestyles (Doranova, Miedzinski & Van der Veen, 2012).

The internal dimension of social CSR represents all the practices aimed to the improvement of the working conditions, such as career opportunities or training and development (Story & Castanheira, 2019). Organizations understand that quality human resources can be an important source of competitive advantage in the market (Hunjet A., Juniric V., Vukovic D., 2020), and companies seem to know the relevance of the well-being of their employees and increasingly invest in employee health and well-being (Ton, 2014). Several research have founded that all practices destined to boost employees working conditions have large impacts on workers' health and productivity either in or out the workplace. If companies used those social CSR changes to promote eco-innovation, it would be assumed that many positive outcomes would arise. Nevertheless, it is argued that those initiatives lead to innovation using '*social, environmental or sustainability drivers to create new ways of working, new products, services, processes and new market space*' (Grayson and Hodges 2004; Little, 2006).

Firms with good CSR practices will improve their reputation, attract qualified employees, or retain the ones already working there, which could result in a workplace more likely to be innovative (Reverte C., Cegarra J. G., 2015). Moreover, empirical results show that CSR have a direct casual effect on value-added intellectual capital (Gangi et al., 2019), resulting in a more creative and competent organizational staff, which could be translated in the long term into environment-oriented workers that pursue and have interest on green policies and programs.

Although the link between CSR and corporate innovation might remain controversial, studies have shown that CSR is positively correlated with environmental strategy and green innovation (Kraus et al., 2020). Firms engaged in CSR activities demonstrate greater success in innovation, and it is necessary to combine both CSR and innovation to follow the correct strategies (Boquet et al., 2017)

2.3 Social CSR: Compensation and Eco-innovation

This study is intended to find evidence to relate social CSR and eco-innovation. Human resource departments have different methods of motivating and enhancing workers performance and capabilities, that as was previously shown, can affect the environmental scope of the organization. Also, rewards are the most influential aspect of the HR system that shape employee behavior (Lawler, 1973). On the different motivators that exist, we can differentiate between pecuniary and non-pecuniary. For the development of this research, both pecuniary and non-pecuniary rewards are referred as PR and NPR respectively. The implications and the effects that they have on eco-innovation are shown in the following sections.

2.3.1 Pecuniary compensation and Eco-innovation

Pecuniary rewards are linked with monetary satisfaction and include wages and performance-based payments, as bonuses or stock options (Suto et al., 2021). High PR can result in an accommodation of employees and considerable decrease of motivation for risk taking (Suto et al., 2021). Studies reveal that high monetary rewards shift the focus away from the task and onto the outcome, reducing the ability to see other possibilities (that could imply more risks), and hindering creativity (Eyal, 2021). Nevertheless, this type of monetary compensation is a practice frequently used by organizations.

Traditionally, it has been assumed that monetary benefits are what employees need to be motivated and work harder (Chekwa C., 2013), but through the past decades HRM practices aimed to improve workplace and employee's welfare, have proven that important effects on productivity can be achieved through other types of CSR practices.

Some authors have affirmed that in general, intrinsic motivation promotes creative thinking, while extrinsic motivation inhibits it (Crutchfield, 1962), but the effect of these PR on creativity and innovation has limited empirical support (Wang K., 2020). Nevertheless, these monetary rewards can lead to higher commitment with the task, or the goal and the performance could be higher (Eisenberger & Aselage, 2009) Moreover, empirical evidence exists about how creativity is enhanced when developing an activity that is pecuniary rewarded, when the

participants are aware that there is the need for them to be creative (Eisenberger & Shanock, 2003).

These conflicting results of monetary rewards on creativity have also been attributed to the ambiguity of personal and contextual factors (Shalley et al., 2004), although the conditions under which PR improves creativity are still ambiguous.

Therefore, having shown the controversial relation between PR and motivation or creativity, and having exposed arguments that clearly link creativity with innovation capability and environmental sustainability, the first hypothesis (extrinsic motivation hypothesis) is given by:

Hypothesis 1: Pecuniary compensation positively affects eco-innovation.

2.3.2 Non-pecuniary compensation and Eco-innovation

Non-pecuniary rewards are linked to non-monetary satisfaction, which could be safety and security in the workplace, development of its capabilities or career development (Suto et al., 2021). In general, attitudes or programs that have an impact on employees and workplace welfare. These rewards are mostly psychological and create a positive emotional reaction that motivates employees to continue improving (Wei L. et al., 2021).

It has been shown that intrinsic rewards have a positive and significant influence on the productivity of the workers (Ajila et al., 2004), and following this line, on the overall productivity and efficiency of the organization. Motivation of workers is completely related with commitment (Van Den Broeck et al., 2013), and there exists evidence to affirm that a positive correlation exists between workplace performance and creativity (Gagné and Deci, 2005). NPR thought intrinsic motivators has been proved to be linked to the improvement and creativity of organizations', that lead to an enhanced innovation capability (IC) of them (Amabile, 1997; Bocquet et al., 2013, McWilliams & Siegel, 2000). This positive effect of NPR (or intrinsic motivators in general) on innovation and creativity has quite high empirical support (Amabile, 1996; Hennessey, 2003; Malik, Butt, & Choi, 2015).

Moreover, it is quite logical that motivated employees will perform better than less motivated employees, and this type of long-term motivation can be achieved through NP rewards. Several studies conducted (Pierce et al., 2003 or Cerasoli et al.) have proven the direct and significant correlation of these non-monetary rewards and employee's performance and motivation (Wei L. et al., 2021). This motivation has the capability of changing behaviors (Wei et al., 2021), and can be used to shape them towards specific goals that the organization may have (Kleinginna et al., 1981) for example, more environmentally oriented practices or green policies.

Following the previous argument, it could be assumed that HR and CSR practices thought non-pecuniary motivators could affect firms' eco-innovation, but further study on this paper will be needed to prove the link between both variables. Considering these arguments, a second hypothesis (intrinsic rewards hypothesis) is given by:

Hypothesis 2: Non-pecuniary compensation positively affects eco-innovation.

2.3.3 Complementarity of PR and NPR compensation and Eco-innovation

It has been previously shown that both PR and NPR could have positive effects on eco-innovation of organizations.

However, the combination of both types of compensation has been found to enhance intrinsic motivation, and therefore, creativity (Wang K., 2020). It has been shown that the interaction between NPR and PR could influence organization's innovation capabilities (Suto et al., 2021), and consequently provoke an impact on firm's eco-innovation.

Although this complementarity could affect positively on innovation capabilities, it could also have a negative impact on firm-level innovation (Suto et al., 2021), as extrinsic motivation can conflict with intrinsic one (Amabile et al., 1996; Bénabou & Tirole, 2003; Delmas & Pekovic,

2018; Huffman & Bognanno, 2018). Payment for achieving performance or a specific goal might crowd-out non-monetary satisfaction from work (Huffman & Bognanno, 2018). Therefore, using both types of rewards could affect employees' intrinsic motivation by shifting their motivation towards monetary interest's.

Nevertheless, there is an increasing interest and attention on the use of both extrinsic and intrinsic rewards as a performance-related stimulation (Manzoor F., et al., 2015).

Given this, it is considered necessary to add a third hypothesis aimed to explain the complementarity character of both types of compensation. The hypothesis is the following.

Hypothesis 3: There exists complementarity between both types of compensations regarding eco-innovation.

3. EMPIRICAL ANALYSIS

3.1 Database

To give empirical support to the previously mentioned hypothesis, Thomson Reuters EIKON database is used. This database measures a company's relative the environmental, social and governance (ESG) performance, commitment, and effectiveness in different themes.

Refinitiv Eikon database consists of more than 7,000 companies globally, and specifically more than 1,200 in Europe. Among the pillar score structure (environmental, social, and corporate governance) that the ESG score has, there are different subcategories weighted proportionately to the count of measures of each category.

ESG scoring systems are created for different uses and stakeholders needs, such as supporting capital allocation decisions (investments or assessing credit risk), or human capital management and staffing decisions (Miller M., 2022).

For the purpose of this study, 1076 European companies present in the database are considered. Among the range of years that this database covers, the period considered for this study corresponds to the years between 2017 and 2021, both included. Moreover, these categories will only be applied in European companies (four geographic zones)* that have more than 10 employees.

*The geographic zones considered are Southern Europe (Spain, Italy, Portugal, Greece, Cyprus, and Malta), Western Europe (France, Austria, Netherlands, Belgium, Germany, Luxembourg, and Switzerland), Northern Europe (Denmark, Finland, Republic of Ireland, Jersey, Norway, Sweden, and United Kingdom), and Eastern Europe (Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia, Slovak Republic, and Ukraine).

3.2 Methodology

3.2.1 Variables

Starting with the empirical analysis, the variables used to prove the hypothesis raised before are defined and presented. To be clear, 4 types of variables are considered to cover the key points of our research: variables about eco-innovation, NPR, PR, and control variables.

First, aimed to measure **eco-innovation** of European firms, a variable called “Environmental Innovation Score” is used. In a scale of 1 to 100 it shows the level of a companies’ capacity to reduce environmental costs and burdens for its customers, creating new market opportunities through new environmental technologies and processes or eco-designed products (De Wit A., 2021)

Considering **NPR variables**, Human Resource Development, Equal Opportunity, Work-life Balance, and Job Strain in the Workplace are being used.

Human Resource Development (HRD) variable is the mix of the following four workforce variables. Each of the following mentioned variables have values 0 or 1, and HRD is therefore formed by the sum of these values (in a scale from 0 to 4) “Training and development” measures whether the company has a policy that supports skills training and career development of its employees or not. “Policy skills training” looks at the programs or processes that focus on the development of the employees’ skills to meet organizational goals, including specific training and information for the general workforce. Then “Policy career development” focuses on the career development paths of the employees, including programs or processes aimed to improve the staffs’ careers, or the encouragement and support provided to employees. Last to mention, “Internal promotion” measures if the company favors promotion among its employees, with advancement plans to improve rank or positions in the hierarchy system or giving opportunities to internal employees rather than recruiting new ones to enhance their careers within the organization. To sum up, the Human Resource Development variable provides a description of the organization’s plan to help employees develop their abilities, skills, and knowledge through the set of the previously mentioned variables.

Equal Opportunity (EO), with values either 0 and 1, is measured through the “Policy diversity and opportunity” variable, and it is intended to measure if the company distributes and promotes equal programs and practices within the workforce. It also includes valuable information about the promotion of women or disabled employees, among others.

Work-life Balance (WLB), embodied in “Flexible working hours” and with values 0 or 1, aims to explain whether the company provides the necessary flexible working hours in order to achieve and promote a balance between the work and their personal lives.

Finally, Job Stain in the Workplace (JS), through “Policy employee health & safety” (with 0, 1 values) refers to the company policies to improve health and safety, including processes or initiatives aimed to reduce occupational accidents, injuries, or illness.

Regarding **PR variables** two are considered: “Salary Gap” and “Salaries and Wages from CSR reporting”.

On the “Salary Gap” variable, the CEO’s total salary (or highest salary) is divided by average salaries and benefits, to portray the evident differences between employees and the highest positions of the firm. Although this gap might seem to act as hinders on employee’s motivation, there are studies and theories proving the opposite. According to Lazear and Rosen (1981) through the “Tournament theory”, there are enterprises where employees are competing against each other to get extra pays (appearing the salary gap). As a consequence, this theory states that the salary gap between employees have a positive effect on the staff motivation, and it works as an incentive to stimulate work enthusiasm.

On the other hand, “Salaries and Wages from CSR reporting” explains the total value of salaries and wages paid to all employees and officers. It includes all monetary benefits given by the company in its CSR reporting, such as social security cost, pension, allowances, or share-based payments.

Regarding control variables, “Full-time employees” and “Geographic zone” are considered. “Full-time employees” cover the number of employees working full-time for their respective company. Moreover, “geographic zone”, with values 0 or 1, indicates to which European zone (Western, Southern, Eastern and Northern Europe) each company belongs.

3.2.2. Data and summary statistics

Considering the data available and gathered from the Refinitiv Eikon database, it has been summarized by geographic zones (Southern Europe, Western Europe, Eastern Europe, and Northern Europe) in a period of 5 years (2017-2021). To start with data analysis, on Table 1 are shown the average values of the variable “Eco-innovation” by geographic zones and year.

Table 1. Average values of “Eco-innovation” by geographic zone and year

	2017	2018	2019	2020	2021
SOUTHERN EUROPE	36.46	33.89	33.75	33.92	33.92
WESTERN EUROPE	43.02	43.30	40.06	37.75	34.73
EASTERN EUROPE	19.82	21.35	22.70	23.88	25.35
NORTHERN EUROPE	37.46	26.79	30.61	29.08	27.37

Source: Own elaboration

From the data shown in the previous table, it appears that the geographic zone in which eco-innovation is more implemented is Western Europe. Moreover, data shows in general, a decreasing trend comparing the years 2017 and 2021. Noticeable differences are presented in the case of Western and Northern Europe, where eco-innovation appears to have suffered of a drastic decrease. The opposite happens in Eastern Europe, where an increasing trend between the years is denoted. Nevertheless, this geographic zone shows the lowest values in general when comparing them with the other zones.

Moreover, on Table 2 is shown a summary statistic of the data of each key variable (both PR and NPR) by geographic zones, in order to study in which zones the policies included in the variables are more implemented. The average values of the (NPR) variables Job Strain in Workplace, Equal Opportunity and Worklife Balance are shown in a scale from 0 to 1, 1 being the highest possible value. When considering Human Resource Development, the values shown appear in a scale from 0 to 4, which result from the sum of the four variables that embody HRD (as it has been previously explained).

Regarding PR, data shown on the table corresponds to the median of the “Salary Gap” and “Salaries and Wages from CSR reporting” variables. Unlike NPR, PR variables are formed by quantitative values, therefore their mean values are affected by the presence of outlier values that provoke significant impacts on the data results. Following this reasoning and to prevent skewness of the data, median values are used.

Table 2. Summary statistic of the variable data by geographic zone for years 2017-2021

	NPR					PR
	JOB STRAIN IN WORKPLACE	HUMAN RESOURCE DEVELOPMENT	EQUAL OPPORTUNITY	WORKLIFE BALANCE	SALARY GAP	SALARIES AND WAGES FROM CSR REPORTING
SOUTHERN EUROPE	0.94	2.35	0.92	0.58	24.26	50,769.29
WESTERN EUROPE	0.87	2.25	0.89	0.60	25.11	56,339.71
EASTERN EUROPE	0.92	2.64	0.85	0.34	18.97	133,010.41
NORTHERN EUROPE	0.82	1.80	0.88	0.35	20.12	75,092.77

Source: Own elaboration

As of the data gathered from the table, we conclude that Southern Europe companies lead the list in “Job Strain in the Workplace” and “Equal Opportunity” programs, with the 94% and 92% of the companies respectively using this type of CSR strategies. At the same time, Eastern Europe shows the greatest implication with “Human Resource Development”, and possesses the lowest salary gap, and the highest salaries and wages.

To show the data in a more graphical procedure, spider graphs have been created for the variables portraying the trends in each of the zones. The graphs and its respective comments are shown below. The following graphs correspond to **NPR** variables.

Graph 1. Average values of “Job Strain in Workplace”, “Worklife Balance” and “Equal Opportunity” variable by geographic zone



Source: Own elaboration

Regarding Job Stain in the Workplace, it is observable that policies regarding health and safety of employees are highly implemented on the Southern Europe, with the highest value of almost

0,95. Nevertheless it is also shown that on the Eastern Europe such policies are also trending, followed by Western Europe. Finally, the geographic zone with the lowest value is Northern Europe.

Southern Europe represents the highest value on the Equal Opportunity variable, having Western and Northern Europe similar values to those of the South. Eastern Europe has the lowest value with a difference of almost 0,1 points comparing it with the Southern Europe value. Therefore, it is to say that Southern Europe companies lead in employee equality and distribution of resources among the workplaces.

The Worklife Balance variable shows the overall lowest values of all the NPR variables, with the highest value being 0.60 points (Western Europe), and the lowest 0.34 of Eastern Europe. Southern Europe has a similar value to the one in Western Europe, and Northern Europe follows the line of Eastern Europe with a value of 0.35 points. With this data, is it assumed that Western Europe employees find easier to reconcile their personal with professional lives than those on Northern or Eastern Europe.

Human Resource Development, as previously explained, is formed by 4 variables which are embodied altogether in this HRD variable. The corresponding graph of the variable is shown below.

Graph 2. Average values of “Human Resource Development” variable by geographic zone



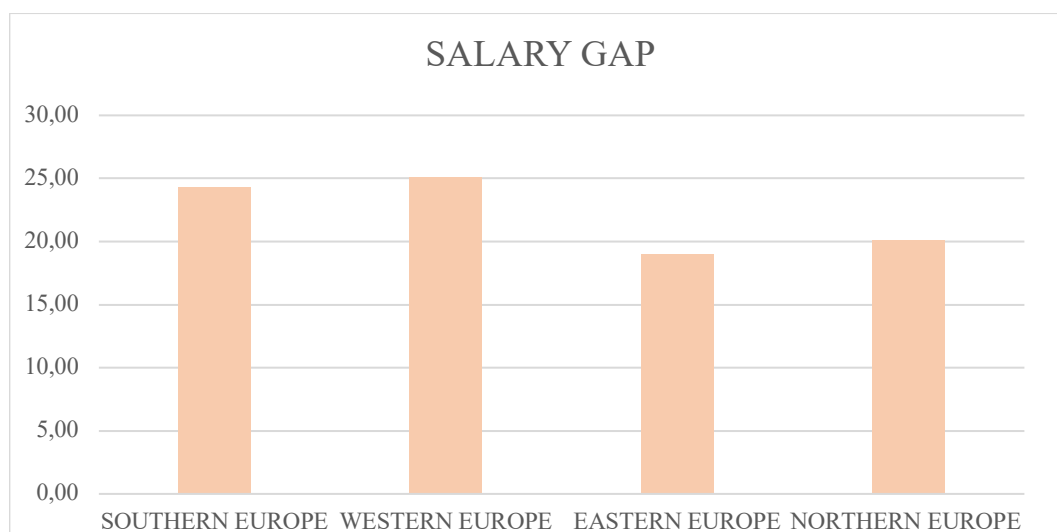
Source: Own elaboration

It appears that there is a more homogeneous distribution among the four zones. Nevertheless, Eastern Europe leads the list, followed by Southern Europe. Again, Northern Europe possesses the lowest value in terms of human resources. Following this reasoning, what is shown according to the data is that Eastern Europe companies implicate more in terms of employee development of skills, abilities, or career. Comparing the four variables at once, there is no significant differences between them in each geographical zone, being the Policy Career Development in northern Europe the lowest value overall.

In general terms, the geographic zones which show a higher implication with NPR programs and policies are Southern and Eastern Europe, followed by Western Europe and ending with Northern Europe.

Regarding **PR**, two graphs are depicted: One for Salary gap, and the second for Salaries and Wages from CSR reporting.

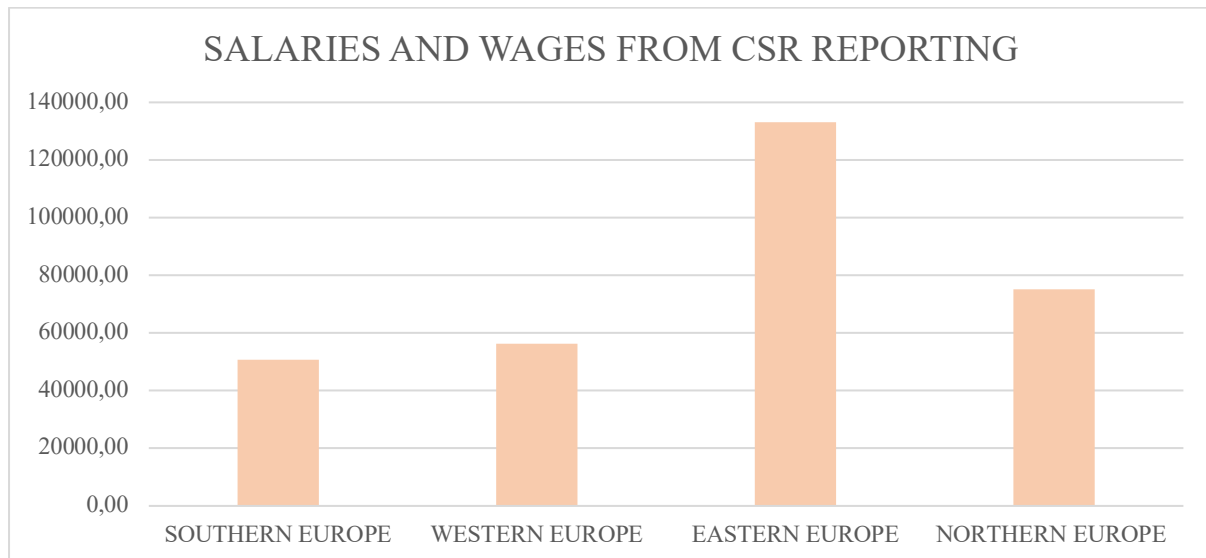
Graph 3. Median values of “Salary Gap” variable by geographic zone



Source: Own elaboration

On this graph, differences of salary gap among different geographic zones are plotted by the median values, being Western Europe the zone with highest salary gap, and Eastern Europe the lowest. Nevertheless, on the data studied, it appears that no significant differences exist between European zones.

Graph 4. Median values of “Salaries and Wages from CSR reporting” variable by geographic zone



Source: Own elaboration

Noticeable differences are plotted in the graph between geographic zones for the “Salaries and Wages from CSR reporting” variable. It is seen that Eastern and Northern Europe are the zones that offer highest salaries for their employees. If we consider both PR graphs, Eastern Europe possesses the highest value regarding salaries and wages, whereas the lowest on salary gap between the CEO and the employees, which could lead to think that Eastern Europe has the most equal and fair salary-based system among the four geographic zones.

Once the trends of implementation of both NPR and PR policies by zones through the variables selected have been analyzed, it is interesting to study the evolution of the variables’ data throughout the 5-year period selected. This following table shows a summary statistic of the overall scores of the key variables in the four geographic European zones classified in each year, from 2017 to 2021. By means of the reasoning applied for Table 2, NPR variables data correspond to the mean values, whereas PR variable values correspond to the median calculations.

Table 3. Summary statistics of the total variable data by year period 2017/2021

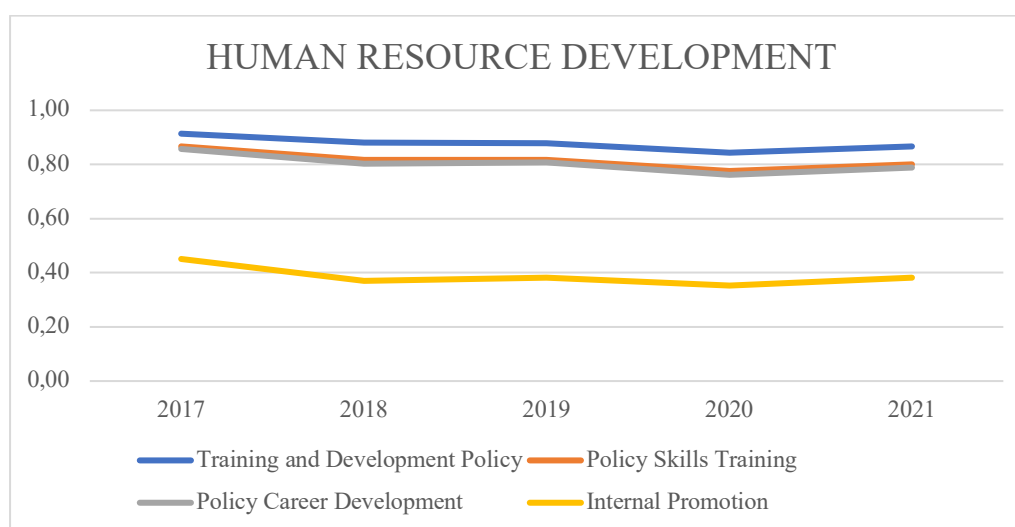
	NPR				PR	
	JOB STRAIN IN WORKPLACE	HUMAN RESOURCE DEVELOPMENT	EQUAL OPPORTUNITY	WORKLIFE BALANCE	SALARY GAP	SALARIES AND WAGES FROM CSR REPORTING
2017	0.88	2.28	0.91	0.47	32.06	63,637.26
2018	0.84	2.62	0.86	0.42	26.44	60,590.22
2019	0.86	2.72	0.88	0.45	23.68	61,875.00
2020	0.85	2.91	0.88	0.47	18.16	59,938.61
2021	0.87	2.79	0.91	0.52	19.09	60,100.67

Source: Own elaboration

Data evolution shows that in 2017, 88% and 91% of the companies used “Job Strain in the Workplace” and “Equal Opportunity” type of policies respectively, being the highest values for the period. Moreover, “Salary Gap” values indicate that the difference between payments was more significant in 2017, with a value of 32,06. Moreover, this previously mentioned year was also the one with highest level of money dedicated to salaries. Regarding “Human Resource Development” and “Worklife Balance”, data indicates that the years in which these programs were more implemented are 2020 and 2021 respectively. Additionally, 2020 corresponds to the year in which least levels of salary gap and highest of salaries and wages are registered.

Following the line of the first data summary, line graphs have been created to plot the evolution of data year by year in Europe.

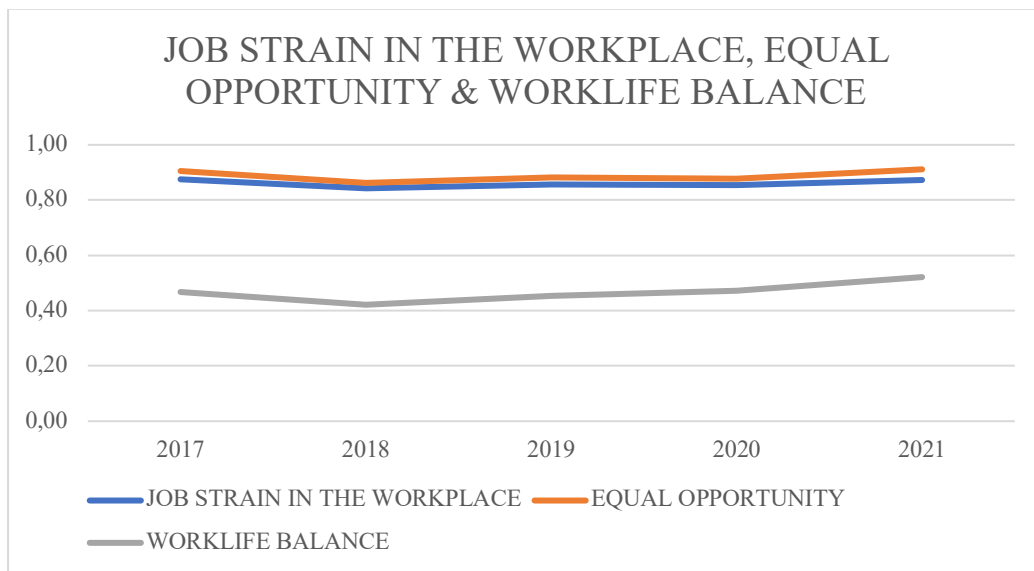
Graph 6. Average values of “Human Resource Development” variable by year



Source: Own elaboration

On the Human Resource Development variable, whose values range from 0 to 4, there is almost a constant tendency of the implementation of the policies in Europe, with a slight overall decrease on the 5 year-period. This trend could be since companies are aware of the importance of employees in the companies, and with the right programs and policies they become more competent, so maintaining them over the years could provide companies improvements in terms of human capital.

Graph 7. Average values of “Job Strain in the Workplace”, “Policy diversity” & “Worklife Balance” variable by year



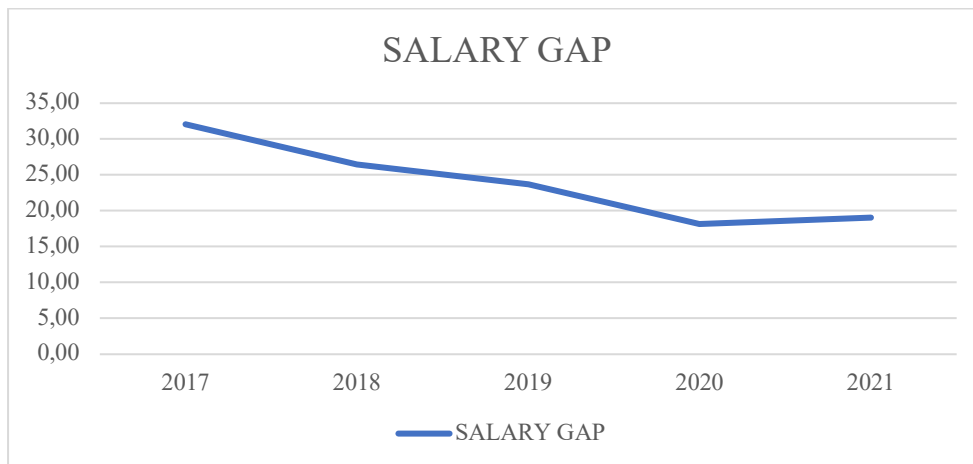
Source: Own elaboration

In this previous graph, it is portrayed Job Strain in the Workplace, Equal Opportunity and Worklife balance with values between 0 and 1. The trend appears to be quite constant for the two first mentioned variables. Without considering the period 2017-2018 in which the variable values decrease, the period embodied in the years 2018-2021 is represented by slight increases of the values. Overall, the changes and trends of both variables are not significant.

Worklife Balance is the variable which appears to embody the more constant increase over the 5-year period time. Nevertheless, its values range from 0,47 to 0,52 in a scale that goes from 0 to 1, which means that in general terms, Worklife Balance is the least widespread policy among the European companies.

The two graphs shown below correspond to the two PR variables of the ongoing analysis.

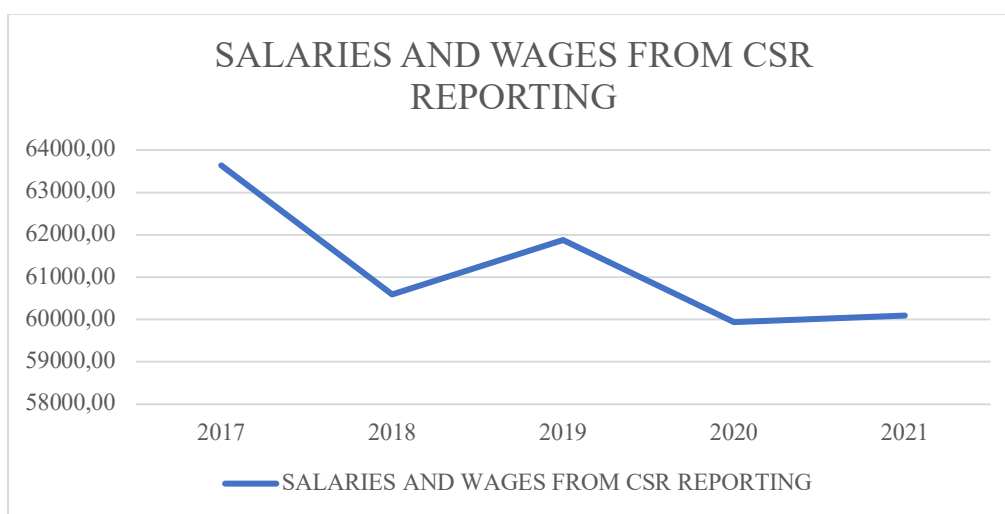
Graph 8. Median values of “Salary Gap” variable by year



Source: Own elaboration

On this first PR graph, corresponding to the Salary Gap variable, a constant decreasing trend is plotted, with a little increase of the values in the period 2020-2021. It shows how companies CEO’s and employees average pay have made a noticeable decrease since 2017. Although this inequality has attracted considerable attention, the knowledge of the possible causes and consequences is still limited and elusive (Connelly et al., 2016). Nevertheless, companies nowadays are increasingly aware of the importance of good conditions for their employees, and implementing a fair payment system could be a good point for the well-being of the labor force.

Graph 8. Median values of “Salary and Wages from CSR reporting” variable by year



Source: Own elaboration

Regarding Salaries and Wages from CSR reporting (graph shown below), a considerable decrease is observed, being the periods covered by 2017-2018 and 2019-2020 the one with the highest decrease in salaries, with a slight increase in the final period 2020-2021. Considering the reasons of the noticeable decrease that is plotted between 2019 and 2020, the Covid-19 pandemic is probable the most resonant. According to the Labor International Organization, the pandemic caused on the first 2020 semester, the reduction of monthly salaries of two thirds of the countries whose data was available.

3.2.3 Regression models and results

To study the effects of PR and NPR on firm's eco-innovation, several regression models are created. The dependent variable of all models is given by the innovation outputs of the "Environmental innovation score" variable. Considering the previously exposed hypothesis, a model is created for each of them.

The first model is intended to analyze the first hypothesis.

H1: ***"Pecuniary compensation positively affects eco-innovation"***

The independent variables used are the ones corresponding to PR, "Salary Gap" and "Salaries and Wages from CSR reporting". Moreover, the control variables used are firms' size (log workers) and geographic zone (dummy variables with value 1 if the company belongs the geographic zone; 0 otherwise). Therefore, the regression model is given by:

$$\text{Eco-innovation} = \alpha + \beta_1 \text{Salary Gap} + \beta_2 \text{Salary Report} + \beta_3 \text{Size} + \beta_4 \text{Northern} + \beta_5 \text{Southern} + \beta_6 \text{Western} + \varepsilon$$

Table 4 below shows the regression results. All p-values on the model have values less than 0.05, therefore, all variables of the model are significant.

Table 4. Output summary of regression model 1

	COEFFICIENT	P-VALUE
(Intercept)	-79.68 (***)	0.00
SG	-5.70 (***)	0.01
SR	6.58 (***)	0.00
Full-Time Employees	19.49 (***)	0.00
Northern	25.18. (***)	0.00
Southern	28.40. (***)	0.00
Western	22.45 (***)	0.00
Adjusted R2	0.19	
Observations	1076	

Source: Own elaboration

Note: *p<0.1; **p<0.05; ***p<0.001

Salary Gap shows a coefficient of -5,71, meaning that increases in payment inequalities among firms, decreases eco-innovation. Following this reasoning, research studies affirm that the countries most exposed to environmental degradation are among the poorest and often suffer high levels of income inequality, and findings show that there is a negative and significant association between a country's income inequality and green fitness (Napolitano et al., 2020). According to this, it is reasonable to argue that companies with high levels of salary gap, spend less resources on incentives on their employees to develop eco-innovation programs and policies.

Regarding Salaries and Wages from CSR reporting, data reveals that higher salaries on the overall workforce of the companies have a positive impact on firms' eco-innovation. A good enterprise salary system inspires employees to maximize their enthusiasm and creativity in their work, meaning that employee salaries have a positive effect on innovation efficiency. (Pan et al., 2020)

When considering the geographic zone variables, it has been obtained that companies using PR policies in Northern, Western and Southern Europe are more eco-innovative than Eastern Europe companies. More specifically, Northern and Western companies are 25,18 and 22,46 times more eco-innovative respectively. The overall highest value is collected by Southern Europe companies, with a value of 28,4. Moreover, it is observed that companies with a higher number of employees are 19,49 times more eco-innovative than those having less labor force in their workplaces.

The second model created covers the second hypothesis of the study.

H2: *“Non-pecuniary compensation positively affects eco-innovation”*

“Job Strain in the Workplace”, “Human Resource Development”, “Equal Opportunity”, and “Worklife Balance” are the independent variables, whereas the control variables are the same as in the previous model. The regression model is the following.

$$\text{Eco-innovation} = \alpha + \beta_1 \text{HRD} + \beta_2 \text{JS} + \beta_3 \text{EO} + \beta_4 \text{WB} + \beta_5 \text{Size} + \beta_6 \text{Northern} + \beta_7 \text{Southern} + \beta_8 \text{Western} + \varepsilon$$

The table shown below, summarizes the output obtained for the second model.

Table 5. Output summary of regression model 2

	COEFFICIENT	P-VALUE
(Intercept)	-57.15 (***)	0.00
Human Resource Development	4.10 (***)	0.00
Job Strain in the Workplace	6.52	0.34
Equal Opportunity	-0.51	0.95
Worklife Balance	11.65 (***)	0.00
Full-Time Employees	15.05 (***)	0.00
Northern	18.82 (***)	0.00
Southern	16.23 (***)	0.00
Western	11.87 (**)	0.02
Adjusted R2	0.20	
Observations	1076	

Source: Own elaboration

Note: *p<0.1; **p<0.05; ***p<0.001

The NPR variables that are significant are “Human Resource Development” and “Worklife Balance”. Both positive coefficients indicate that these type of programs and policies affect

positively firms' eco-innovation. As it has been previously exposed on the theoretical framework of this research, NP incentives triggers motivation and creativity, therefore leading to an increase in the organization's innovation capabilities.

The p-value results obtained for this model indicate that the values of the variables "Job Strain in the Workplace" and "Equal Opportunity" are not significant for the "Eco-innovation variable". Therefore, the hypothesis thrown is rejected for these two variables, assuming that they both have no impact on eco-innovation.

On the geographic zone variables following the line of the first model, values are positive, pointing out the superiority of the eco-innovation rates from the three geographic zones in comparison with Eastern Europe. More specifically, companies developing NPR policies are more eco-innovative in Northern Europe with a value of 18,82, followed by Southern (16,23) and Western Europe (11,87). It is also shown that the number of full-time employees affects positively to companies' eco-innovation.

The last hypothesis raised aimed to study the complementarity between both types of compensation (PR and NPR), is covered by the following presented models.

H3: "There exists complementarity between both types of compensations regarding eco-innovation"

According to the results obtained in model 2, only "Human Resource Development" and "Worklife Balance" variables are significant for firms' eco-innovation. Therefore, these two variables are solely considered (among NPR) for this model. Complementarity is measured by multiplying the variables whose complementarity wants to be analyzed. Moreover, one model is created for each of these significant variables. Both models have as control variables "Full-time employees" and geographic zone.

This regression model is given by;

$$\text{Eco-innovation} = \alpha + \beta_1 \text{Salary Gap} + \beta_2 \text{Salary Report} + \beta_3 \text{HRD} + \beta_4 \text{Salary Gap*HRD} + \beta_5 \text{Salary Report*HRD} + \beta_6 \text{Size} + \beta_7 \text{Northern} + \beta_8 \text{Southern} + \beta_9 \text{Western} + \varepsilon$$

On the table below are shown the results obtained by the model proposed.

Table 6. Output summary of regression model 3

	COEFFICIENT	P-VALUE
(Intercept)	-46.90	0.09
Salary Gap	-21.62 (***)	0.01
Salaries and Wages from CSR	2.44	0.62
Human Resource Development	-7.66	0.36
HRD * SG	4.80 (**)	0.03
HRD * SR	1.11	0.46
Full-Time Employees	18.15 (***)	0.00
Northern	24.72 (***)	0.00
Western	21.63 (***)	0.00
Southern	27.58 (***)	0.00
Adjusted R2	0.20	
Observations	1076	

Source: Own elaboration

Note: *p<0.1; **p<0.05; ***p<0.001

Regarding “Salary Gap” it is seen that it has a negative impact on firms’ eco-innovation, as it was expected considering model 1 results. Nevertheless, the coefficient of the variable “HRD*SG” is significant, thus a complementary effect of both types of incentives has a positive impact on eco-innovation.

The output obtained reveals that the variables HRD*SR, Salaries and Wages from CSR, and Human Resource Development are not significant, consequently null hypothesis is accepted. Following this reasoning, complementarity between “Human Resource Development” and “Salaries and Wages” does not generate a positive effect on eco-innovation.

The data indicates that those companies in Southern Europe using both types of compensation are 27,58 times more eco-innovative than in Eastern Europe. Following this line, companies in Northern and Western Europe are 24,72 and 21,63 times more eco-innovative than those in Eastern Europe. Same as in the other two previous models, number of full-time employees affects positively eco-innovation.

The last model of the study is given by:

$$\text{Eco-innovation} = \alpha + \beta_1 \text{Salary Gap} + \beta_2 \text{Salary Report} + \beta_3 \text{WB} + \beta_4 \text{Salary Gap*WB} + \beta_5 \text{Salary Report*WB} + \beta_6 \text{Size} + \beta_7 \text{Northern} + \beta_8 \text{Southern} + \beta_9 \text{Western} + \varepsilon$$

Table 7. Output summary of regression model 4

	COEFFICIENT	P-VALUE
(Intercept)	-97.33 (***)	0.00
Salary Gap	-1.71	0.61
Salaries and Wages from CSR	9.41 (***)	0.00
Worklife Balance	43.56 (***)	0.01
WB * SG	-6.20	0.11
WB * SR	-4.74 (*)	0.09
Full-Time Employees	18.47 (***)	0.00
Northern	21.89 (***)	0.00
Southern	21.78 (***)	0.00
Western	16.65 (***)	0.00
Adjusted R2	0.22	
Observations	1076	

Source: Own elaboration

Note: *p<0.1; **p<0.05; ***p<0.001

The table above shows the output obtained for the last model of our research. “Salaries and Wages from CSR” contributes positively to this model, same as “Worklife Balance”, both having a positive impact on the dependent variable “Eco-innovation”. Additionally, there is no significant evidence to affirm that Worklife Balance and PR incentives jointly affect eco-innovation. These results indicate that the variables “Salary Gap”, “WB*SG”, and “WB*SR” are not significant, and in line with the hypothesis 3, it means that there exists no complementarity between PR and NPR regarding eco-innovation. According to the coefficients of the multiplicative variables, which show a negative sign, complementarity between NPR and PR can generate a negative impact on eco-innovation.

Firms using jointly PR and NPR compensation, are 21,89 times more eco-innovative in Northern, 21,78 in Southern and 16,65 in Northern, than in Eastern Europe. As in all models, “Full-time employees” has a positive impact on the dependent variable of the model.

4. DISCUSSION AND CONCLUSIONS

This study aimed to find empirical evidence of how pecuniary and non-pecuniary rewards are linked to a sample of European firm's eco-innovation, by means of providing these two types of incentives to employees. As it has been previously exposed, CSR policies have increasingly gained attention throughout the past years and the reasons for this focus-increase are diverse, although the environmental awareness could be one of the main. With this significant increase, companies need to adapt themselves to new business models and trends, and redirecting their workforces towards sustainable behaviors can impact the companies' innovation capabilities.

To make the link as clear as possible and to reach specific conclusions, this research focuses on both extrinsic (PR) and intrinsic (NPR) motivators, which have been proven to be triggers for creativity. Moreover, this creativity quality is tightly linked with companies' innovation capabilities, and therefore with eco-innovation.

To develop the empirical research, three hypotheses have been raised. In order to contrast the hypotheses, regression models have been created. When analyzing the first hypothesis (PR incentives), results have shown the positive correlation between the salaries paid to employees (pecuniary incentives) with the improvement of the eco-innovation capabilities of the companies, in line with external studies that have estimated that firms with higher rates of payment are more innovative (Golam A., 2020). Nevertheless, output also indicated that the salary gap existent in between the payments of the CEO and the employees hinders eco-innovation.

Moreover, the results provided by the analysis of hypothesis 2 (NPR incentives) have indicated that NPR incentives, more specifically programs and policies related with Human Resource Development and Worklife Balance affect positively to European firms' eco-innovation. These findings support that NPR interventions can positively contribute to organizations' innovation activities, besides employee engagement, leadership's management motivation or social capital development (Sheehan M et al., 2013)

Summing up the insights obtained from the analysis, results partially sustain hypothesis 3. First, empirical results support that complementarity between HRD and Salary Gap affect positively to eco-innovation. On the other hand, there is no evidence to back the complementary relation

between Worklife Balance and PR. In fact, there exists a negative relation between NPR and PR when it comes to eco-innovation.

This results support and are consistent with several studies that have maintained the focus on this topic, and that actively affirm that CSR strategies can influence employee motivations for creativity and innovation (Amabile et al., 1996; Beugelsdijk, 2008; Delmas & Pekovic, 2018). At the beginning of this research, the CSR's lucrative and revenue producer character was exposed, and the existence of more characters attributable to this concept was questioned. It has been shown that CSR is a wide source of value creation (not only monetary) in terms of human capital, competitive advantage, or long-term investments.

Redirecting businesses strategies towards more responsible ones in accordance with the Green Growth Strategy (OECD, 2011a), should encourage innovation, which can enhance efficiency in the use of natural capital and foster new economic opportunities. For that purpose, an engaged and motivated workforce has been proven to be not only helpful but necessary, and businesses should undertake and explore the best strategies adapted to their specific needs or concerns among the workplaces.

Finally, we address limitations in this study. NPR is described through employee-oriented CSR practices, and it would be interesting to consider other practices or devices to measure employees' motivations. The variables selected focus on the policies and programs available in the companies, whereas there are no indicators of employee feedback about these programs. Therefore, for future extensions of research on this topic, employee motivation assessment surveys could be included in order to analyze the effectiveness of these programs on employees' motivation and the consequent implications they may have on eco-innovation. Moreover, for the purpose of this study, only European firms were considered. Studying and analyzing the connection between incentives and eco-innovation on a global scale could deviate the results of the present study. Additionally, there haven't been considered technological innovation capabilities or advances present in each country or geographical zone. These technological issues could create differences between countries that may affect the eco-innovation limits.

Future studies could use these limitations applied to the present research, in order to create a wider idea of the implications that the employee's incentives have on the firms' eco-innovation and develop more complete strategies and policies for corporate sustainability.

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